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# THE MEDIATION EFFECT OF STRATEGIC COMPETITIVENESS ON GOVERNMENT POLICY, ENTREPRENEURIAL ORIENTATION AND MARKETING STRATEGY TOWARDS MARKETING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SME) IN SOUTH SULAWESI

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**Abstract:** Small and Medium Enterprises can prove that the downstream industry sector can be the foundation for the national economy compared to the upstream industry that tends to crash. It is proved by the increasing number of SMEs, both in small and medium scales, every year. In the developing countries, SME is a major economic activity that gives revenue contribution and creates great labor absorption rate. This research was conducted in South Sulawesi province by selecting three clusters from the districts considered representative, they are Wajo, Sidrap and Soppeng Districts. It was conducted because these regions are the centers for silk handicraft SMEs. The population of this research is all of silk SMEs, both incorporated and not incorporated, located in South Sulawesi, particularly in the Soppeng, Sidrap and Wajo Districts. 3. The result show (1) Government Policy has significantly direct effect to strategic competitiveness, but not significantly to marketing performance. (2) entrepreneurial orientation and marketing strategy has not significantly direct effect to strategic competitiveness and marketing performance. (3), There is no mediation effect of strategic competitiveness, in relationship between government policy, entrepreneurial orientation and marketing strategy towards marketing performance of small and medium enterprises (SME) in South Sulawesi. It is recommended that the owners and managers of Silk SMEs need to address and take the initiative in order to improve the current system of marketing strategies implemented to be better, so that the strategic competitiveness and marketing performance marketing can be improved in the future.

**Keywords:** small bussiness, economy, marketing, entrepreneurial

## 1. INTRODUCTION

Small bussiness (UKM) is a term in the development of Economy of Indonesia that plays an important role to preserve the national economic growth in the post-economic

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crisis period. In addition to be a business sector that gives a great contribution to the development, SME also creates great job chances for domestic labor increase as an effort to decrease the unemployment rate.

The economic crisis resulted in decreasing economic growth in the monetary and financial sectors, especially for the real economic structure, in facing either external or internal shock. Before the crisis, the government put more priority on the upstream but ignored the downstream industry. There was a statement that if the upstream industry is developed then the downstream industry will follow. The fact is that the developed large industries remain vulnerable to the external shock because they do not have any backward and forward linkages in providing inputs. It was late-anticipated by the government in introducing SME as a program to build the downstream industry and pro-big business development. As a result, the downstream industry experienced lameness during the economic crisis. It is different case when the government implemented the SME program as a solution in overcoming the problems faced by downstream industries. SME becomes a solution in overcoming the crisis, since SME relies more on programs conducted as the excellence-based programs.

Small and Medium Enterprises can prove that the downstream industry sector can be the foundation for the national economy compared to the upstream industry that tends to crash. It is proved by the increasing number of SMEs, both in small and medium scales, every year. In the developing countries, SME is a major economic activity that gives revenue contribution and creates great labor absorption rate. SME in Indonesia is an economic activity that gives a great contribution to the Gross Domestic Income (GDI) and absorbs labor from rural communities by creating many employment chances in the downstream industry sector that reinforced the stability of the national economy. Its role is expected to create welfare for Indonesian people.

The role and position of SME are very important and strategic to the national economy. According to the published data from BPS, the number of SME business units reached 3.442.306 with labor absorption rate of 7.632.931 and has an export value reached US\$ 9.5 billion. The great potential of SME contributes in realizing the strong, developed, and independent national economy with a community-industry (Depperindag, 2013). Small and Medium Enterprises is considered as a key for economic improvement of a country. It plays a role in job creation and labor absorption, which is able to mobilize and mediate resources from upstream to the downstream, so that the role of SME is considered important. At the macro level, SME has created major jobs, contributes to gross domestic income by 30% in Australia, 51% in New Zealand, 57% in the UK and the US, and 76% in Canada and Japan (Ayyagari, Isyaguc, Kunt, 2013).

The government has made various deregulation efforts as the efforts in structural adjustment and economic restructuring. Annunciate the deregulation in trade and investment fields does not give a lot of advantages. The empirical study proved that

the added value was not enjoyed by small, medium, and large scale enterprises. It was the conglomerate scale enterprises, with more than 1,000 workers, that enjoyed both the increase in added value in absolute and per average companies (Kuncoro Abimanyu, 1995).

The important role of SME in the Economy of Indonesia is not aligned with the level of competitiveness. The publication of The Global Competitiveness Report published by the World Economic Forum in 2008 showed Indonesia's competitiveness in the global competition. In 2008, Indonesia's competitiveness, based on Growth Competitiveness Index, was ranked 55th of 134 countries. Indonesia's achievement in 2008 relatively had no progress compared to its achievement in 2007, which was ranked 54th of 131 countries (KADIN, 2008 in Tupamahu, 2010).

South Sulawesi Province, especially for the silk industry. The silk industry is a traditional industry that has been developed in the community of South Sulawesi. Community weaving (*pertenunan rakyat/gedogan*) is rapidly developed because weaving is the tradition of the community and they use silk sarong for various traditional ceremonies such as wedding and harvest festival.

Based on this background, the author makes SME as the research object, where the strategic competitiveness will be linked with the effect of government policy, the role of entrepreneurial orientation and marketing strategy, which are moderated by the formulation of marketing performance on the current empirical condition. In this research, the mediation effect of Strategic Competitiveness variable will be studied in the conceptual of the effect of Government policy, Entrepreneurial orientation and Marketing Strategy on Strategic Competitiveness of SME in South Sulawesi. Originality for this paper shows: (1) mediation effect (using sobel test) Mediation Effect of Strategic Competitiveness on Government Policy, Entrepreneurial Orientation and Marketing Strategy Towards Marketing Performance of Small and Medium Enterprises (SME), (2) location of study (no previous research for this relationship): Most Small and Medium Enterprises (SME) in South Sulawesi, Indonesia.

## **2. LITERATURE REVIEW**

The view of William Dunn (1980) associated the definition of policy with the policy analysis that is a new side of the science development in daily life. The definition of policy analysis as an applied science that uses various methods to produce and transform relevant information used in solving many problems in daily life. Policy science as a part of the sciences continues to evolve into an applied science. The methodology used is multidisciplinary in accordance with the complex social conditions.

Entrepreneurship has different meanings between the experts or references for various focuses and emphasis. Richard Cantillon (1775), for example, defines entrepreneurship as self-employment. An entrepreneur bought the goods in current time at a certain price and sell it in the future with an uncertain price. Thus, this

definition has more emphasis on how a person is at risk or uncertainty. In contrast to Cantillon, according to Penrose (1963), entrepreneurial activities include the identification of opportunities in the economic system. According to Harvey Leinbenstein (1968.1979), entrepreneurship includes activities required to establish or run a company when all markets have not been established or clearly identified yet or when the functions of production components have not been fully known yet.

Bygrave (1993) defines entrepreneurship as the creation of a new organization to seize the opportunities. According Bygrave (1997) entrepreneur is a person who is able to create a new business, including buying an existing business entity. Suryana (2006) states that entrepreneurship is attitude, spirit and ability to create something new that is highly valuable and useful for themselves and other people. Entrepreneurs is a skilled people who take the opportunities in developing his/her business with the aim to improve his/her life. It means that entrepreneurship is a creative and skilled attitude to utilize the opportunities in developing a business. According to Armstrong and Kotler (2000: 5), marketing is "A societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others". According to W.Y.Stanton, marketing is something which includes all purpose-related systems in order to plan and determine the price until promoting and distributing goods and services that can satisfy the needs of actual and potential buyers.

The marketing process begins with finding what is desired by consumers. Marketing has a purpose that in which the potential customers know the product(s) in detail and the company can supply all of the demand for its product(s). The company can explain in detail all of the activities associated with marketing. Marketing activities include various activities, ranging from the product description, product design, promotion, product advertisement, communication to consumers, until the delivery of the product to reach the consumers quickly. Knowing and understanding the customer so that the product is suitable and can be sold on its own way.

Porter (1994: ix-xvii) in Tumar Sumihardjo (2008: 8) states that the term of competitiveness is similar to competitiveness or competitive. The term of excellence of competitiveness is similar to competitive advantage. Tumar Sumihardjo (2008: 8), provides an explanation of the term of *daya saing*: "the word *daya* in *daya saing* means power/strength, and the word *saing* means achieving more than the others, or different from the others in terms of quality, or having certain advantages. It means that *daya saing* / competitiveness can be a significant power/strength to be advanced/excellent in certain things conducted by a person, group or institution."

Rangkuti (2003) in Kuncoro (2007: 73), states that: "Competitive advantage is the specific activities developed by the company in order to be more advanced / excellent than the competitor(s)". The word *unggul* or advanced, based on the opinion of Tumar Sumihardjo (2008) and Rangkuti (2003) above, is the relative position of an organization towards other organizations. It is similar as stated by Agus Rahayu (2008: 66) that:

“Competitive advantage is a relative position of an organization towards other organizations, both towards an organization, some organizations or the entire organizations in an industry”.

The controlling function in any organization is necessary to determine whether a plan has been achieved or not. Achievements of an organization can be observed through the performance assessment in a certain time unit. Every organization, including the profit or nonprofit company, needs to know its achievement or performance when required. In general, organizational performance is only associated with human resources, whereas in the company organization, the company's performance, in general, is only associated with marketing performance.

The company's performance can be seen on the achievements of the various functions implemented, including viewing the marketing performance in the implementation of marketing functions. Marketing performance is highly dependent on the success of the company in implementing the right strategy. Measuring the marketing performance as a control tool of success is expressed by some previous researchers, among others, according to Gaspersz (1997), measuring the marketing performance that is a part of a quality performance will be very useful as a positive step in triggering the performance of the business itself. The measurement on marketing performance can be conducted at three levels of performance process, namely strategic process level, output level and outcome level.

### **3. METHODOLOGY**

This research was conducted in South Sulawesi province by selecting three clusters from the districts considered representative, they are Wajo, Sidrap and Soppeng Districts. It was conducted because these regions are the centers for silk handicraft SMEs. The population of this research is all of silk SMEs, both incorporated and not incorporated, located in South Sulawesi, particularly in the Soppeng, Sidrap and Wajo Districts. The respondents are the owners and managers of silk SMEs. The selection of SME owners here was due to the consideration from the author and in accordance with the purpose of research that is to determine the competitiveness of strategic marketing that can improve the marketing performance of SMEs. In addition, the selection of the owners and managers of SMEs as the respondents was due to it was considered appropriate to provide information in order to answer the problems of this research. The analysis tool used was the Structural Equation Modeling (SEM).

### **4. RESULTS AND DISCUSSION**

#### **4.1. Goodness of Fit SEM**

The criteria used was to test whether the proposed models have compatibility with the data or not. The criteria for fit model is composed of: 1) degrees of freedom (degree of freedom) must be positive and 2) non significant Chi-square Required ( $p \geq 0.05$ )

and above conservative received ( $p = 0.10$ ) (Hair *et al.*, 2006), 3) incremental fit above 0.90 which GFI (goodness of fit index), Adjusted GFI (AGFI), Tucker Lewis Index (TLI), The Minimum Sample Discrepancy Function (CMIN) divided by degree of freedom (DF) and the Comparative Fit Index (CFI), and 4) RMSEA (Root Mean Square Error of approximation) is low. Following the criteria presented models as well as critical values that have compatibility data.

**Table 1**  
**Goodness of Fit SEM**

<i>Goodness of fit index</i>	<i>Cut-off Value</i>	<i>Results Model</i>
2 - Chi-square	expected to be small	378.569 < (0.05; 342 = 386.125)
Probability	$\geq 0.05$	0.000
CMIN/DF	$\leq 2.00$	2.057
RMSEA	$\leq 0.08$	0.101
GFI	$\geq 0.90$	0.758
AGFI	$\geq 0.90$	0.697
TLI	$\geq 0.95$	0.540
CFI	$\geq 0.95$	0.597

From the evaluation of the full model indicated that out of the eight criteria of goodness of fit indices, the only one that really well meet the criteria, namely Chi-square. Three other criteria that Prob, CMIN / DF, and RMSEA said to be marginal because it was closer to the cut-off is required. While the last four criteria, namely GFI, AGFI, TLI and CFI deemed unfavorable. In this case we follow the principle of parsimony suggested Solimun (2008), in which the statistical test result can still be accepted if at least one of the criteria to show good results (good fit). Parsimony principle states that the statistical test may be accepted if at least one of the criteria to show good results (good fit). The results showed a good category criteria and three marginal criteria, it can be concluded that the overall model (full model) is said to have been in accordance with the data and can be analyzed further detail.

#### 4.2. Hypothesis testing

Based on empirical model, table below shows the result of direct effect, mediation effect. The relationship significant if P-value < 0.05, in other hand, the relationship is not significant if P-value > 0.05.

The result show (1) Government Policy has significantly direct effect to strategic competitiveness, but not significantly to marketing performance. (2) entrepreneurial orientation and marketing strategy has not significantly direct effect to strategic competitiveness and marketing performance. (3), There is no mediation effect of strategic competitiveness, in relationship between government policy, entrepreneurial orientation and marketing strategi towards marketing performance of small and medium enterprises (SME) in South Sulawesi.

**Table 2**  
**Analysis Result**

<i>Relationship</i>	<i>Coefficient</i>	<i>Critical Ratio</i>	<i>P-value</i>	<i>Result</i>
<b>Direct Effect</b>				
Government Policy → Strategic Competitiveness	0.812	3.094	0.002	Signifikan
Entrepreneurial Orientation → Strategic Competitiveness	0.460	1.476	0.140	Not Signifikan
Marketing Strategy → Strategic Competitiveness	-0.199	-1.367	0.172	Not Signifikan
Government Policy → Marketing Performance	-0.521	-1.553	0.120	Not Signifikan
Entrepreneurial Orientation → Marketing Performance	0.536	1.795	0.073	Not Signifikan
Marketing Strategy → Marketing Performance	0.224	0.662	0.508	Not Signifikan
Strategic Competitiveness → Marketing Performance	-0.521	-1.553	0.120	Not Signifikan
<b>Mediation Effect</b>				
Government Policy → Strategic Competitiveness → Marketing Performance	$0.812 \times -0.521 = -0.423$	1.320	0.187	Not Signifikan
Entrepreneurial Orientation → Strategic Competitiveness → Marketing Performance	$0.460 \times -0.521 = -0.240$	1.389	0.165	Not Signifikan
Marketing Strategy → Strategic Competitiveness → Marketing Performance	$-0.199 \times -0.521 = 0.104$	1.294	0.196	Not Signifikan

### 4.3. Discussion

Based on the empirical models proposed in this research, it can conduct a test on the proposed hypothesis. Related to the hypothesis, there is a significant direct effect of the entrepreneurial orientation on marketing performance, the findings of this research are also different from some previous empirical findings concerning the direct and similar direction effect of entrepreneurial orientation on marketing performance. Craven (1996) states that right understanding on the consideration affecting consumers' decision to buy the product, to select a product, service types and the selling price of products is an appropriate way to understand the dynamic needs and desires of consumers.

The silk SME context in South Sulawesi that is still quite traditional results in the difference in the results of this research that seems to indicate the need to change the mindset of the owners and managers of silk SMEs to be more involved and having more understand on the customers in offering and marketing their products. Certainly, it can not be directly conducted if the owners or managers of the SMEs do not have

entrepreneurial orientation that affect marketing performance. The indicators of entrepreneurial orientation are meaningful on productivity if they are directed towards customer orientation, competitor orientation, coordination between functions and learning on customers that sustainably result in good marketing performance.

It means that although the findings of this research, in general, reject the hypothesis, but this research is significant because it may help to understand the bankruptcy of a SME when other SMEs are very successful (Tupamahu, 2010). SMEs have to compete with business actors from all over the world. SMEs that do not have a relatively stable market domain area are clearly incapable and powerless to compete in the open, fair and transparent market arena.

On the other hand, the capital, technology mastery, habit of having internal competition only, and the ability to turn the threat into an opportunity also parts of the weaknesses of SME which are basically related to the strategic ability of SME owners itself to improve its business performance. The idea is that the success of SME is determined by the entrepreneurial ability of the owners and managers of SME themselves in the operations (Priyanto, 2004).

Specifically, this research contributes to the understanding of the competitiveness of silk SMEs in particular and SMEs in general, especially related to the entrepreneurial orientation that has an effect on the competitiveness of SME. The results of empirical studies in this research have not been able to prove and reveal the role of entrepreneurial orientation as a determinant of the competitiveness of SME. However, on the other hand, the empirical research has contributed to the understanding of the effect of government policy on the competitiveness of SME.

We see that the empirical research that has been conducted complements our understanding of the Resource-Based View (RBV) strategy and supports, among others, the study conducted by Black and Boal (1994) which concluded that the RBV strategy is based on the resources owned has an effect on the achievement of competitive advantage of the company's products. It was said to be complementary because, according to Barney and Arikan (2000) in Purwohandoko (2009), the presence of RBV that is owned by a company is still weak in forming or generating competitive advantage if it is ignoring the characteristics of the market and focuses into the company, so that it has some risks to the sustainability of the company.

The argument above is actually able to be seen based on the characteristics of the composition of the capabilities and resources that are owned by small companies or SMEs that are not varied and in relatively small (limited) quantities, compared to the big companies. The results of empirical research related to large scale enterprises in this case has explained the general concept of RBV as a determinant basis of competitiveness, but these results have not revealed the implementations that support dynamic resources and capabilities that are applicable in achieving competitive advantage of a company. The controversy or the gap forms a general question about the relevance of the position internal resources in absolute manner as a source of



competitive advantage for SME achievement which in this case is expressed significantly resulted from the implementation of entrepreneurial orientation and marginally resulted from the implementation of a marketing strategy conducted.

The results provide a solution to the controversy or gap on the achievement of a competitive advantage in large scale enterprises to SME when RBV concept is justified as a singular basic concept that produces the competitiveness of the companies, both large and small or medium scale such as SME. In short, empirically, this research has enriched the research design that allows for causal analysis on the determinant of the marketing performance and strategic competitiveness. In addition, empirically, this research has contributed to the research on entrepreneurship and human resources to analyze the effects of government policy and marketing strategy. It means that this research has contributed to the body of knowledge that will improve the understanding on the strategic competitiveness and marketing performance of SME by considering the entrepreneurial orientation at the individual level and the effect of government policy that becomes the constraint or limitation of the entrepreneurial spirit of the actors in silk industry. The constraint or limitation has made these results believed to be closer to the entrepreneurial behavior that is actually happening on the field, in addition to be in accordance with the theory.

Practically, this research improves the understanding on the marketing performance of silk SME by considering the strategic competitiveness, entrepreneurial orientation, marketing strategy and especially the government policy in the developing countries in regions such as South Sulawesi. The approach taken in this research emphasizes the importance of the role of the owners and the managers in the silk SME and is expected to contribute in the form of advice to the context of developing countries. It is also aimed at testing whether the theoretical understanding that the decisions made by the subordinates and the organizational structures in the smaller companies like SMEs are less significant than in medium and large businesses or not (Miller & Toulouse, 1986). What is empirically and factually occurred in the larger companies is in contrast to SME. In SME, the owner is the main actor in the business. Making decisions, controlling the finance, managing the human resources, and maintaining relationships with customers. The inventors are especially seen determining the strategies, culture, and goals of the business in the early stages of business development and set the direction for the success in the future (Frese et al, 2002; Schein, 1983).

## **5. CONCLUSION AND RECCOMENDATION**

Based on the analysis result and discussion, the conclusion of this research are (1) Government Policy has significantly direct effect to strategic competitiveness, but not significantly to marketing performance. (2) entrepreneurial orientation and marketing strategy has not significantly direct effect to strategic competitiveness and marketing performance. (3), There is no mediation effect of strategic competitiveness, in

relationship between government policy, entrepreneurial orientation and marketing strategi towards marketing performance of small and medium enterprises (SME) in South Sulawesi.

Based on the conclusions of the results of this research, there are some suggestions that become the implications of these results, as follows (1) The government attempts to create a business climate through the appropriate and economical-oriented policy. Through the policy of technical managerial capabilities to the entrepreneurs that corresponds the educational background and training that have been followed, provides ease in licensing, provides credits to SME, helps the product promotion according to the quality of technological-standardized production based on the marketing expertise and research results on human resource development of the entrepreneurs in improving the competitiveness and marketing performance. (2) The policy of empowerment of entrepreneurship and orientation by applying 9 effective policies to guarantee the SME business in order to widely open the opportunity to engage and provide certainty of business of silk SME that is accompanied with its economic efficiency through policies that facilitates in business formalization and licensing, among others, by developing a pattern of one-stop service to facilitate the process and reduce the licensing costs. In order to make the strategic competitiveness and marketing performance able to affect each other, it is necessary to strengthen the entrepreneurial orientation dimensions precisely, particularly the emphasis on the dimensions of innovativeness, risk-taking, and reactiveness. (3) It is recommended that the owners and managers of Silk SMEs need to address and take the initiative in order to improve the current system of marketing strategies implemented to be better, so that the strategic competitiveness and marketing performance marketing can be improved in the future.

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